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C O N F I D E N T I A L SECTION 01 OF 02 NEW DELHI 007306

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E.O. 12958: DECL: 10/22/2011  
TAGS: [PREL](#) [PGOV](#) [MARR](#) [ECON](#) [ETRD](#) [IN](#)  
SUBJECT: MOD STRESSES NO IMMEDIATE CHANGE IN DEFENSE  
PROCUREMENT PROCEDURES TO A/USTR HARTWICK

Classified By: Charge d'Affaires Geoffrey Pyatt for Reasons 1.4 (B, D)

11. (C) Summary. Department of Defense Production Joint  
Secretary (Exports) Kiran Chadha told A/USTR Ambassador

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Hartwick in an October 20 meeting:

-- the GOI is firm that there will be no changes in the  
immediate future to defense procurement procedures, despite  
the August 30 release of the new 2006 Defense Procurement  
Policy (DPP);

-- there will be no change in policy on credit banking for  
offset fulfillment, although the GOI will be open to  
reconsidering this in the future;

-- the DPP allows for offset obligations to include  
commitments and ventures with the private sector, and the GOI  
will assist suppliers in finding private sector partners;

-- Given the number of corporations interested in doing  
business with India, MoD is comfortable with its bargaining  
position at this time, and

-- a major deal with a U.S. company will probably happen soon, "because (India is) now open."

End Summary.

12. (C) In an October 20 meeting, A/USTR Ambassador Doug Hartwick stressed to Department of Defense Production Joint Secretary (Exports) Dr. Kiran Chadha the high level of

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potential for Indian industry if the new Defense Procurement Policy (introduced in August 2006) can be flexibly administered. Chadha, who heads the Defence Offsets Facilitation Agency (DOFA), immediately stated that India's defense procurement procedures, as laid out in the 2006 DPP, will remain the basis for the GOI's implementation phase. The MoD does not plan to introduce any further changes in the near term.

13. (C) Ambassador Hartwick pressed for flexibility on the issue of credit banking, emphasizing the importance companies place on such investments, and noting that the issue will only become more important to American business as the size of investments grow in the future. Chadha was firm in explaining that India does not plan to change policy on credit banking now, she said, however, the GOI will review the DPP's implementation as time goes on and to remedy problems on a case-by-case basis. She suggested that the GOI will be particularly flexible in cases involving high-tech investment, particularly with well-known companies, citing Boeing as an example, saying "If HAL (Hindustan Aeronautics Limited) and Boeing are doing work, if they contact us (regarding credit banking) I think we can make it work."

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14. (C) Responding to Ambassador Hartwick's inquiry as to whether India's defense public sector undertakings (DPSUs) had the capacity to absorb the large-scale offset investments which are being projected, Chadha said India has built up its facilities, but is now allowing foreign participants to invest directly in the private sector. "The DPSUs are not the best bet," she admitted. The GOI will serve as a clearinghouse of sorts for offset partners, she explained, saying "We will help identify partners (for U.S. companies) so they won't be taken for a ride. DOFA is ready to do that." India has studied offset practices of 30 other countries, Chadha said, and has developed a system aimed at "buying, making, indigenizing, and upgrading." India is in a position where it does not need to compromise on technology purchases, she explained, saying it will buy technology rather than have it as part of an offset deal. In the past, the technology India obtained through offsets was obsolete by the time it mastered it, she reasoned. She also said that investments in software development -- she used software for developing a radar as an example -- will not need GOI licensing and will be able to be included to fulfill offset obligations. There are already 29 licenses which have been issued to 19 Indian companies allowing them to be offset partners, she stated, and more companies are approaching the GOI and asking how to qualify.

15. (C) India feels it is in a strong bargaining position regarding defense procurements, Chadha said, given its plans to upgrade nearly all its weapons systems over the next 15 years. "We're in a comfortable position," she stated. "We still have infrastructure problems, and we still have no 'single window' for procurements, but once people do business here, they get comfortable. We now see our size as an asset, rather than as a liability." She added that India's views on defense procurement changed completely following the Kargil war in 1999, when Indian policymakers realized its armed forces were not receiving the quality materiel they needed. Since Kargil, the Cabinet and politicians have enthusiastically supported the military's plans to modernize.

¶6. (C) As Chadha moved to end the meeting, Ambassador Hartwick emphasized that in order for the U.S.-India defense relationship to advance as both sides have expressed they hoped it would, and to give a confidence boost to U.S. companies uncertain whether their long wait will pay off, rewarding a contract to a U.S. firm -- such as Bell Helicopter's proposal -- would be a strong signal. Chadha concluded by saying "Something will happen for U.S. companies soon, because we're now open." (sic)

¶7. (U) Ambassador Hartwick has cleared this message.  
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